CHAPTER 46
WITHHOLDING

[Prior to 12/17/86, Revenue Department[730]]

701—46.1(422) Who must withhold.

46.1(1) *Requirement of withholding.*

a. General rule. Every employer maintaining an office or transacting business within this state and required under provisions of Sections 3401 to 3404 of the Internal Revenue Code to withhold and pay federal income tax on compensation paid in this state to an individual is required to deduct and withhold from such compensation for each payroll period (as defined in Section 3401 of the Internal Revenue Code) an amount computed in accordance with 46.2(1) and 46.2(2). Iowa income tax is not required to be withheld on any compensation paid in this state of a character which is not subject to federal income tax withholding (whether or not such compensation is subject to withholding for federal taxes other than income tax, e.g., FICA taxes), except as provided in 46.4(422).

b. Examples. Paragraph *"a"* above may be illustrated by the following examples:

(1) *Temporary help.* A is a typist in the offices of B corporation, where she has worked regularly for two months. A is, however, supplied to B corporation by C, a temporary help agency located in Iowa. C renders a weekly bill to B corporation for A's services, and C then pays A. B corporation is not A's "employer" within Section 3401(d) of the Internal Revenue Code and B corporation is therefore not required by the Internal Revenue Code to withhold a tax on A's compensation. Since B corporation is not required to withhold a tax for federal purposes on A's compensation, B is not required to do so for Iowa purposes. The temporary help agency, however, is required to withhold from A's compensation for federal purposes and must similarly do so for Iowa purposes.

(2) *Domestic help.* A is employed as a cook by Mr. and Mrs. B. The B's are required to withhold FICA (i.e., Social Security) tax from compensation paid to A, but are not required to withhold from such compensation for income tax under the Internal Revenue Code, because under Section 3401(a)(3), A's compensation does not constitute "wages". Since the B's are not required to withhold income tax for federal purposes, they are not required to do so for Iowa purposes.

(3) *Agricultural labor for which wages are paid prior to July 1, 1990.* A is a full-time worker on B's farm. A's duties include soil cultivation, raising and harvesting corn and maintenance of farm tools and equipment. B is not required to withhold from A's compensation because the wages were paid prior to July 1, 1990, when wages for agricultural labor became subject to state income tax withholding. Therefore, B was not required to withhold for Iowa tax purposes. See subparagraph (5) below which describes the withholding of state income tax for wages paid on or after July 1, 1990, for agricultural labor.

(4) *Executives.* A is a corporate executive. On January 1, 1968, A entered into an agreement with B corporation under which he was to be employed by B in an executive capacity for a period of five years. Under the contract, A is entitled to a stated annual salary and to additional compensation of $10,000 for each year. The additional compensation is to be credited to a bookkeeping reserve account and deferred, accumulated and paid in annual installments of $5,000 on A's retirement beginning January 1, 1973. In the event of A's death prior to exhaustion of the account, the balance is to be paid to A's personal representative. A is not required to render any service to B after December 31, 1972. During 1973, A is paid $5,000 while a resident of Iowa. The $5,000 is not excluded from "wages" under Section 3401(a) of the Internal Revenue Code; therefore, B is required to withhold federal income tax, and, since it is compensation paid in this state, B must withhold Iowa income tax on A's deferred compensation.

(5) *Agricultural labor for which wages are paid on or after July 1, 1990.* Wages paid for agricultural labor on or after July 1, 1990, are subject to withholding for state income tax purposes to the same extent that the wages are subject to withholding for federal income tax purposes. In general, wages paid after December 31, 1989, for agricultural labor are subject to federal income tax withholding, if the employer pays more than $2,500 in wages during the year to all employees or if one employee receives $150 or more in cash remuneration in the year from the employer. The federal criteria for income tax withholding on wages paid for agricultural labor are adopted for state income tax purposes, but do not apply to wages paid for agricultural labor which are paid after December 31, 1989, but prior to July 1, 1990.

In situations where withholding agents have voluntarily withheld state income tax from wages paid in the period from January 1, 1990, through June 30, 1990, for agricultural labor, the tax withheld and remitted to the department is not subject to penalty and interest for failure to pay 90 percent of the tax by the due date. This is because the tax was not required to be withheld, since there was no obligation to withhold state income tax on wages paid for agricultural labor in instances when the wages were paid before July 1, 1990.

c. *Exemption from withholding.* An employer may be relieved of the responsibility to withhold Iowa income tax on an employee who does not anticipate an Iowa income tax liability for the current tax year.

An employee who anticipates no Iowa income tax liability for the current tax year shall file a withholding allowance certificate with their employer claiming exemption from withholding. An employee who meets this criteria may claim an exemption from withholding at any time; however, this exemption from withholding must be renewed by February 15 of each tax year that the criteria is met. If the employee wishes to discontinue or is required to revoke the exemption from withholding, the employee must file a new withholding allowance certificate within ten days from the date the employee anticipates a tax liability or on or before December 31 if a tax liability is anticipated for the next tax year. See 46.3(2).

d. *Withholding from lottery winnings.* Every person, including employees and agents of the Iowa lottery agency making any payment of "winnings subject to withholding" (defined in subparagraph (1) below) shall deduct and withhold a tax in an amount equal to 5 percent of the winnings. The tax shall be deducted and withheld upon payment of the winnings to a payee by the person or payer making this payment. Any person or payee receiving a payment of winnings subject to withholding must furnish the payer with a statement as is required under Treasury Regulation §31.3402(q)-1, paragraph *"e,"* with the information required by that paragraph. Payers of winners subject to withholding shall file a return on Form W-2G with the Internal Revenue Service, the department of revenue and finance, and with the payee of the lottery winnings by the dates specified in the Internal Revenue Code and in Iowa Code section 422.16. The W-2G form shall include the information described in Treasury Regulation §31.3402(q)-1, paragraph *"f."* Other informational returns shall be filed with the department of revenue and finance whenever the Iowa lottery agency has data which shows that the aggregate winnings paid to an individual in the calendar year are $1,000 or more.

(1) *Lottery winnings subject to withholding.* Lottery winnings subject to withholding means any payment where the proceeds from a wager exceed $600. The rules for determining the amount of proceeds from a wager under Treasury Regulation Section 31.3402(q)-1, paragraph *"c,"* shall apply when determining whether the proceeds from Iowa lottery winnings are great enough so that withholding is required. This rule shall apply to winnings from tickets purchased from the Multistate Lottery to the extent the tickets were purchased within the state of Iowa.

(2) Reserved.

e. *Withholding from prizes from games of skill, games of chance, or raffles.* Every person making any payment of a "prize subject to withholding" (defined in subparagraph (1) below) must deduct and withhold a tax in an amount equal to 5 percent of the prize from a game of skill, a game of chance, or a raffle. The tax must be deducted and withheld upon payment of the winnings to a payee by the person making this payment. Any person or payee receiving a payment of winnings subject to withholding must furnish the payer with a statement as is required under Treasury Regulation Section 31.2402(q)-1, paragraph *"e,"* with the information required by that paragraph. Payers of prizes subject to withholding must file a return on Form W-2G with the Internal Revenue Service, the department of revenue and finance, and with the payee of the prize by the dates specified in the Internal Revenue Code and in Iowa Code section 422.16. The W-2G form must include the information described in Treasury Regulation Section 31.3402(q)-1, paragraph *"f."* Other informational returns must be filed with the department of revenue and finance whenever the payer has data which shows that the aggregate winnings paid to an individual in the calendar year are $1,000 or more.

(1) *Prizes subject to withholding.* Prizes subject to withholding means any payment of a prize where the amount won exceeds $600.

(2) Reserved.

f. *Withholding from winnings from pari-mutuel wagers.* Every person making any payment of "winnings subject to withholding" (defined in subparagraph (1) below) must deduct and withhold a tax in an amount equal to 5 percent of the winnings from pari-mutuel wagers. The tax must be deducted and withheld upon payment of the winnings to a payee by the person making this payment. Any person or payee receiving a payment of winnings subject to withholding must furnish the payer with a statement as is required under Treasury Regulation Section 31.3402(q)-1, paragraph *"e,"* with the information required by that paragraph. Payers of winnings subject to withholding must file a return on Form W-2G with the Internal Revenue Service, the department of revenue and finance, and with the payee of the winnings by the dates specified in the Internal Revenue Code and in Iowa Code section 422.16. The W-2G form must include the information described in Treasury Regulation Section 31.3402(q)-1, paragraph *"f."*

(1) *Pari-mutuel winnings subject to withholding.* For winnings paid from January 1, 1987, through June 30, 1992, winnings subject to withholding means any payment of winnings from a pari-mutuel wager where the proceeds (winnings less amount wagered) are subject to federal income tax withholding under Treasury Regulation Section 31.3402(q)-1(b). Under Treasury Regulation Section 31.3402(q)-1(b), federal income tax is to be withheld only if the proceeds from the wager (a) exceed $1,000 and (b) are at least 300 times as large as the amount of the wager.

For winnings paid on or after July 1, 1992, winnings subject to withholding are winnings in excess of $1,000.

(2) Reserved.

g. *Withholding from winnings from riverboat gambling and from winnings from slot machines at racetracks.* Effective for winnings paid on or after July 1, 1992, from slot machines on riverboat gambling vessels, withholding of state income tax is required if the winnings exceed $1,200. Effective for winnings paid on or after July 1, 1995, from slot machines at racetracks, withholding of state income tax is required if the winnings exceed $1,200.

46.1(2) *Withholding on pensions, annuities and other nonwage payments to Iowa residents.* Effective for nonwage payments made to individuals on or after January 1, 1992, state income tax is required to be withheld from payments of pensions, annuities, supplemental unemployment benefits and sick pay benefits and other nonwage income payments made to Iowa residents in those circumstances mentioned in the following paragraphs. This subrule is to cover those nonwage payments described in Sections 3402(o), 3402(p), 3402(s), 3405(a), 3405(b), and 3405(c) of the Internal Revenue Code. However, no state income tax withholding is required from nonwage payments to residents to the extent those payments are not subject to state income tax. See paragraph *"h"* for threshold amounts for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement incomes which are made on or after January 1, 1999, and paragraph *"g"* for threshold amounts for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement incomes which are made on or after January 1, 1996. Generally, no state income tax is required to be withheld from nonwage payments to residents in circumstances where the payment amounts are less than $200 or the taxable portions of the payments are less than $200 in situations where the payers know the taxable amounts. In instances where a payment amount or taxable amount is $200 or more but the payment amount or the taxable amount for the year is less than $2,400, no state income tax is required to be withheld. In the case of some nonwage payments to residents, such as payments of pensions and annuities, no state income tax is required to be withheld if no federal income tax is being withheld from the payments of the pensions and annuities. The rate of withholding on the nonwage payments described in this subrule is 5 percent of the payment amounts or 5 percent of the taxable amounts unless specified otherwise.

For purposes of this subrule, an individual receiving nonwage payments will be considered to be an Iowa resident and subject to this subrule if the individual's permanent residence is in Iowa. The fact that a nonwage payment is deposited in a recipient's account in a financial institution located outside Iowa does not mean that the recipient's permanent residence is established in the place where the financial institution is situated.

The Iowa income taxes withheld from pensions and annuities may be considered separately from Iowa income taxes withheld from wages of employees for purposes of determining when withholding tax reports are to be filed with the department with the taxes withheld from the pensions and annuities. However, the payers of the pensions and annuities can also elect to aggregate the Iowa income taxes withheld from pensions and annuities with the Iowa income tax withheld from wages and remit the total amount withheld with one deposit form. One of the two options for remitting withholding tax to the department should be used for the entire calendar year.

In the case of a lump-sum distribution from a qualified retirement plan received by an Iowa resident in the tax year, state income tax is required to be withheld if the taxable amount of the distribution is $2,400 or more and federal income tax is being withheld from the distribution.

Payers of pension and annuity benefits and other nonwage payments may withhold state income tax from these payments on the basis of tables and formulas included in the Iowa withholding tax guide of the department of revenue and finance. State income tax is required to be withheld by payers using the withholding formulas and withholding tables in situations when federal income tax is being withheld from the nonwage payments.

a. Withholding from pension and annuity payments to residents. Withholding of state income tax is required from payments of pensions and annuities to Iowa residents to the extent the payments are made on or after January 1, 1992, and to the extent the recipients of the payments have not filed election forms with the payers of the benefits which specify that no federal income tax is to be withheld. Therefore, state income tax is to be withheld when federal income tax is being withheld from the pensions or annuities. See paragraph *"g"* for threshold amounts for withholding from payments of pensions, annuities, and other retirement incomes which are made on or after January 1, 1996. At least 30 days prior to the first payment of pension or annuity benefits to an Iowa resident made on or after January 1, 1992, the payer of the benefits may send a letter to the recipient to notify the Iowa resident that Iowa income tax will be withheld if federal income tax is being withheld from the pension or annuity. The letter should mention that Iowa income tax will be withheld at a rate of 5 percent and will be withheld only from the taxable portion of the payment or from the total payment if the payer does not know the taxable amount.

However, although Iowa income tax is ordinarily required to be withheld from pension and annuity payments made to Iowa residents on or after January 1, 1992, if federal income tax is being withheld from the payments, no state income tax is required to be withheld if pension and annuity payments are not subject to Iowa income tax, as in the case of railroad retirement benefits which are exempt from Iowa income tax by a provision of federal law. In addition, no Iowa income tax is required from a pension or annuity payment made to an Iowa resident to the extent that the payment amounts are less than $200 or the taxable amounts of the payments are less than $200, in instances where the payers know the taxable amounts of the payments.

Payers of pension or annuity benefits to Iowa residents may provide an option for the withholding of state income tax from the benefits to those recipients of the pension or annuity benefits who have filed election forms with the payers that specify no federal income tax is to be withheld from the pension or annuity payments. The following is a sample notice that can be used to give Iowa residents a separate option for withholding of state income tax from pension or annuity benefits, although no federal income tax is being withheld from the benefits. The notice for withholding of state income tax should include the information shown below:

NOTICE OF WITHHOLDING OF STATE
INCOME TAX FROM (PENSIONS OR ANNUITIES)

Beginning on (date) the (pension or annuity) payments you receive from the (insert name of plan or name of company) will be subject to state income tax. You have previously made an election so that no federal income tax is to be withheld from your (pension or annuity). No Iowa income tax will be withheld from your (pension or annuity) unless you complete, date, and sign the enclosed election form and return it to (name and address). If no state income tax is withheld from your (pension or annuity), you will still be subject to Iowa income tax on this income. You may be subject to penalties under rules for estimated tax if your payments of estimated tax and state withholding tax, if any, are not adequate.

If you make the election for withholding of state income tax, the amount to be withheld will be 5 percent of the taxable portion of the payment or 5 percent of the payment amount in situations where the payer does not know how much of the payment amount is taxable. However, no state income tax is to be withheld if the taxable portion of the (pension or annuity) is less than $2,400 on an annual basis or less than $200 on a monthly basis. Your election will remain in effect until you revoke it by stating, in writing to your payer, your intention to cease the withholding of state income tax from your (pension or annuity). Any election or revocation will be effective no later than January 1, May 1, July 1, or October 1 after it is received, so long as it is received at least 30 days before that date.

ELECTION FOR WITHHOLDING STATE INCOME
TAX FROM YOUR (PENSION OR ANNUITY)

Instructions: Check the box below to have state income tax withheld from your (pension or annuity). Sign and date the election form and return the form to (insert name and address).

☐ Please withhold state income tax from my (pension or annuity).

Signed: ______________________________ ____________________
Name Date

Return the completed election form to: (insert name and address).

b. Withholding from payments to residents from profit-sharing plans, stock bonus plans, deferred compensation plans, individual retirement accounts and from annuities, endowments and life insurance contracts issued by life insurance companies. Effective for payments made on or after January 1, 1992, payments to Iowa residents from profit-sharing plans, stock bonus plans, deferred compensation plans, individual retirement accounts and payments from life insurance companies for contracts for annuities, endowments or life insurance benefits are subject to withholding of state income tax if federal income tax is withheld from the benefits because the recipient of the benefits has not completed the election form to specify no federal income tax is to be withheld. However, no state income tax is to be withheld from the income tax payments described above to the extent those income tax payments are exempt from Iowa income tax. See paragraph *"g"* for thresholds for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement incomes which are made on or after January 1, 1996. In addition, no state income tax is to be withheld in circumstances where payment amounts are less than $200 or the taxable portions of the payments are less than $200 in cases when the payer knows the taxable amount of the payment. There is also no state income tax withholding in situations where the payment amount or the taxable amount is $200 or more but the payment amount or the taxable amount for the year is less than $2,400.

At least 30 days prior to the first payment of one or more of the above described income payments made to an Iowa resident on or after January 1, 1992, the payer of the income may send a letter to the recipient of the payment so the resident will be aware that Iowa income tax will be withheld at a 5 percent rate if federal income tax is being withheld. Although payers of the benefits listed at the beginning of this paragraph are required to withhold Iowa income tax from the benefit payments to Iowa residents starting on January 1, 1992, only if federal income tax is being withheld from the payments, the payers may give the Iowa residents a separate option for withholding of Iowa income tax in situations where the taxpayers have filed election forms with the Internal Revenue Service to provide that no federal income tax is to be withheld from the benefit payments. A sample notice for making the election for withholding state income tax is found in paragraph *"a"* of this subrule. That sample notice can be modified for purposes of notifying recipients that an election for withholding form may be completed for withholding of state income tax from payments from profit-sharing plans, stock bonus plans, deferred compensation plans, individual retirement accounts and from payments from life insurance companies for life insurance contracts, annuities and endowments.

In cases where the recipients elect withholding of state income tax from the income payments, the payers are to withhold from the payments at a rate of 5 percent on the taxable portion of the payment, if that can be determined by the payer or on the entire income payment if the payer does not know how much of the payment is taxable. Once a recipient makes an election for state income tax withholding, that election will remain in effect until a later election is made.

c. Withholding from payments to residents for supplemental unemployment compensation benefits and sick pay benefits. Income payments made on or after January 1, 1992, for supplemental unemployment compensation benefits and sick pay benefits are subject to withholding of state income tax under the conditions described in this paragraph. In the case of supplemental unemployment compensation benefits, those benefits are treated as wages for purposes of state income tax withholding. Therefore, state income tax should be withheld from these payments when federal income tax is withheld because the payments are treated as wages. The amount of state income tax withholding should be determined by the withholding tables provided in the Iowa employers "Withholding Tax Guide."

In the case of state income tax withholding for sick pay benefits, state income tax is to be withheld from the benefits by the payer only if state income tax withholding is requested by the payee of the benefits. However, payees of sick pay benefits should probably not request withholding from the benefits if the payees are eligible for the disability income exclusion authorized in Iowa Code section 422.7 and described in rule 701—40.22(422). If withholding is requested by the payee, the withholding should be done at a 5 percent rate on the sick pay benefits. However, no withholding of state income tax should be made if the benefit payment is less than $200. Once withholding is started, it should continue until such time as the payee requests that no state income tax be withheld.

d. Withholding on lump-sum distributions from qualified retirement plans. Effective for lump-sum distribution payments from qualified retirement plans made on or after January 1, 1992, to Iowa residents, state income tax is required to be withheld under the conditions described in this paragraph. No state income tax is required to be withheld from a lump-sum distribution payment to an Iowa resident in a situation where the payment is not subject to Iowa income tax. See paragraph *"g"* for thresholds for withholding on lump-sum distributions issued on or after January 1, 1996. In addition, Iowa income tax is not required to be withheld on the distribution to the extent that the amount of the distribution or the taxable amount, if known by the payer, is less than $2,400. Iowa income tax is to be withheld from a lump-sum distribution made to an Iowa resident to the extent that federal income tax is being withheld from the distribution. The rate of withholding of state income tax from the lump-sum distribution is 5 percent from the total distribution or 5 percent from the taxable amount, if that amount is known by the payer. Note that in the case of a lump-sum distribution, the Iowa income tax imposed on the taxable amount of the distribution is 25 percent of the federal income tax on the distribution.

e. Withholding of state income tax from nonwage payments to residents on the basis of tax tables and tax formulas. Effective for nonwage payments made on or after January 1, 1992, to Iowa residents, state income tax may be withheld from the nonwage payments on the basis of formulas and tables included in the Iowa withholding tax guide of the department of revenue and finance. See paragraph *"g"* for threshold amounts for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement incomes which are made on or after January 1, 1996. When state income tax withholding is being done from the formulas or tables in the withholding guide, the amounts of the nonwage payments are treated as wage payments for purposes of the tables or the formulas.

The frequency of the nonwage payments determines which of the withholding tables to use or the number of pay periods in the calendar year to use in the formula. For example, if the nonwage payment is made on a monthly basis, the monthly wage bracket withholding table should be utilized for withholding or 12 should be utilized in the formula to indicate that there will be 12 nonwage payments in the year.

The payers of nonwage payments should withhold state income tax from the nonwage payments to Iowa residents when federal income tax is being withheld from the nonwage payments. The payers should withhold from the nonwage payments to Iowa residents from tables or the formulas in the Iowa withholding guide on the basis of the number of withholding exemptions claimed on Form IA W4 which have been completed by the payees of the payments. However, if a payee of a nonwage payment has not completed an IA W4 form (Iowa employee's withholding allowance certificate) by the time a nonwage payment is to be made by the payer of the nonwage payment, the payer is to withhold state income tax on the basis that the payee has claimed one withholding allowance or exemption.

In a situation when a payee of a nonwage payment completes Form IA W4 and claims exemption from state income tax withholding when federal income tax is being withheld from the nonwage payment, the payer of the nonwage payment should withhold state income tax using one withholding allowance or exemption unless the payee has verified exemption from state income tax.

This paragraph *"e"* applies to all nonwage payments made to Iowa residents, including payments of pensions and annuities.

f. Withholding on distributions from qualified retirement plans that are not directly rolled over. Effective for distributions from qualified retirement plans made on or after September 1, 1993, state income tax is to be withheld at a rate of 5 percent from the gross amount or taxable amount if known by the payer of the distribution made to Iowa residents if the distributions are not transferred directly to an IRA, Section 403(a) annuity or another qualified retirement plan. The distributions that are subject to state income tax withholding are those distributions that are subject to 20 percent withholding for federal income tax purposes. However, if the gross amount or taxable amount of a distribution is less than $2,400, state income tax withholding is not required. See paragraph *"g"* for thresholds for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement plans which are made on or after January 1, 1996.

g. Withholding from distributions made on or after January 1, 1996, but prior to January 1, 1999, from pensions, annuities, individual retirement accounts, deferred compensation plans and other retirement plans. Effective for distributions from pension plans, annuities, individual retirement accounts, deferred compensation and other retirement plans, state income tax is generally required to be withheld from the distributions, unless one of the exceptions for withholding in this paragraph applies. For purposes of this paragraph, the term "pensions and other retirement plans" includes all distributions of retirement benefits covered by the partial exemption described in rule 701—40.47(422).

State income tax is not required to be withheld from a distribution from a pension or other retirement plan to the extent the distribution is an income which is not subject to Iowa income tax, such as a distribution of railroad retirement benefits. State income tax is also not required to be withheld from a distribution from a pension or other retirement plan if the amount of the distribution is $250 or less or if the taxable amount is $250 or less, if the state taxable amount is known by the payer of the distribution. There is no requirement for withholding state income tax from a distribution from a pension or other retirement plan if the distribution is $500 or less and the person receiving the distribution is eligible for the partial exemption of distributions from pensions and other retirement plans described in rule 701—40.47(422) and that person has indicated an intention to file a joint state individual income tax return for the year in which the distribution is made. Finally, there is no requirement for withholding from a lump-sum payment from a qualified retirement plan if the lump-sum payment is $3,000 or less and the lump-sum payment is the only distribution from the retirement plan in the year.

h. Withholding from distributions made on or after January 1, 1999, from pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement plans. Effective for distributions made on or after January 1, 1999, from pension plans, annuities, individual retirement accounts, deferred compensation plans, and other retirement plans, state income tax is generally required to be withheld from the distributions when federal income tax is being withheld from the distributions, unless one of the exceptions for withholding in this paragraph applies. For purposes of this paragraph, the term "pension and other retirement plan" includes all distributions of retirement benefits covered by the partial exemption described in rule 701—40.47(422).

State income tax is not required to be withheld from a distribution from a pension or other retirement plan if the distribution is an income which is not subject to Iowa income tax, such as a distribution of railroad retirement benefits. State income tax is also not required to be withheld from a distribution from a pension plan or other retirement plan if the amount of the distribution is $417 per month or less or if the taxable amount is $417 per month or less and the person receiving the distribution is eligible for partial exemption of retirement benefits described in rule 701—40.47(422), if the state taxable amount can be determined by the payer of the distribution. There is also no requirement for withholding state income tax from a distribution from a pension or other retirement plan if the distribution is $834 per month or less or the state taxable amount is $834 per month or less and the person receiving the distribution is eligible for the partial exemption of retirement benefits described in rule 701—40.47(422) and that person has indicated an intention to file a joint state individual income tax return for the year in which the distribution is made. In instances where the payment amount or taxable amount is more than $417 per month but less than $5,000 for the year, no state income tax will be required to be withheld. Finally, there is no requirement for withholding from a lump-sum payment from a qualified retirement plan if the lump-sum payment is $5,000 or less, the recipient of the distribution is eligible for the partial exemption of distributions from pensions and other retirement plans, and the lump-sum payment is the only distribution from the retirement plan in the year.

i. Withholding from distributions made on or after January 1, 2001, from pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement plans. Effective for distributions made on or after January 1, 2001, from pension plans, annuities, individual retirement accounts, deferred compensation plans, and other retirement plans, state income tax is generally required to be withheld from the distributions when federal income tax is being withheld from the distributions, unless one of the exceptions for withholding in this paragraph applies. For purposes of this paragraph, the term "pensions and other retirement plans" includes all distributions of retirement benefits covered by the partial exemption described in rule 701—40.47(422).

State income tax is not required to be withheld from a distribution from a pension or other retirement plan if the distribution is an income which is not subject to Iowa income tax, such as a distribution of railroad retirement benefits. State income tax is also not required to be withheld from a pension plan or other retirement plan if the amount of the distribution is $500 per month or less or if the taxable amount is $500 or less and the person receiving the distribution is eligible for the partial exemption of retirement benefits described in rule 701—40.47(422), if the state taxable amount can be determined by the payee of the distribution. There is also no requirement for withholding state income tax from a pension or other retirement plan if the distribution is $1,000 per month or less or if the taxable amount is $1,000 or less and the person receiving the distribution is eligible for the partial exemption of retirement benefits described in rule 701—40.47(422) and that person has indicated an intention to file a joint state income tax return for the year in which the distribution is made. In instances where the distribution amount or the taxable amount is more than $500 per month but less than $6,000 for the year, no state income tax will be required to be withheld, if the person receiving the distribution is eligible for the partial exemption of retirement benefits.

Finally, there is no requirement for withholding from a lump-sum payment from a qualified retirement plan if the lump-sum payment is $6,000 or less, the recipient is eligible for the partial exemption of distributions from pensions and other retirement plans, and the lump-sum payment is the only distribution from the retirement plan in the year.